

Valuing services in the physician fee schedule: The five-year review

ISSUE: Does the system for setting physician work values in the physician payment system adequately identify those services that are overvalued and those that are undervalued?

KEY POINTS: The relative value units (RVUs) assigned to services in the physician fee schedule determine how payment rates vary, one service relative to another. The initial RVUs, developed based on research at Harvard University, were implemented with the fee schedule in 1992. Since that time, CMS has reviewed and modified the RVUs for selected services based on recommendations from the RVS Update Committee (RUC), a committee involving the American Medical Association and national medical specialty societies. RVUs for new services are also established based on RUC recommendations. By law, RVUs are reviewed every five years. A review is currently ongoing and is scheduled to be completed in 2007.

Valuing physician services is important because if relative values are not set appropriately, physician decisions may be influenced by financial considerations rather than solely by clinical necessity. Previous five-year reviews led to substantially more increases than decreases in work RVUs. The reviews yielded this result even though the factors that can lead to a service becoming misvalued suggest that both undervalued and overvalued services are an issue.

In this draft chapter for the March report, we discuss the importance of periodic review of the relative values in the physician fee schedule and examine the current five-year review process. At the January meeting, Commissioners will review recommendations to improve the process.

ACTION: The Commission will finalize recommendations to improve the five-year review process. Staff also seeks comments on the draft chapter.

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